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FISCAL IMPACT STATEMENT

LS 6312 **NOTE PREPARED:** Feb 6, 2008
BILL NUMBER: HB 1001 **BILL AMENDED:** Jan 22, 2008

SUBJECT: Property Tax Relief.

FIRST AUTHOR: Rep. Crawford **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill has the following provisions:

(1) Levy Elimination: This bill eliminates: (A) school tuition support levies; (B) school transportation fund levies; (C) county medical assistance to wards fund levies; (D) family and children's fund levies; (E) children's psychiatric residential treatment services fund levies; (F) children with special health care needs county fund levies; (G) the State Forestry Fund levy; (H) the State Fair Fund levy; (I) the Department of Local Government Finance data base management levy; and (J) levies to pay for incarceration of juvenile delinquents in Department of Correction facilities.

(2) Circuit Breaker: It increases the circuit breaker credit for homesteads, certain rental property, residential mobile home parks, agricultural property, and property of certain lower and moderate income senior citizens.

(3) Homestead Supplemental Deduction The bill provides an additional supplemental standard deduction for homesteads.

(4) Senior Tax Deferrals: This bill permits senior citizens to defer the payment of part of the property taxes that would otherwise be due on a homestead.

(5) PTRC/Homestead Credits: The bill provides an additional homestead credit for 2008. It also eliminates state-reimbursed homestead credits, property tax replacement credits, and tax increment financing credits after 2008.

(6) Homestead Filing: This bill permits a sales disclosure statement to be used as an application for a

homestead credit and a standard deduction.

(7) Elimination of Township Assessors: The bill transfers the assessment duties of township assessors and assessor-trustees to the county assessor.

(8) Assessment Standards: This bill revises assessment standards for (A) strip-mined property, (B) improvements to residential property, and (C) integrated steel mills, and oil refinery and petrochemical companies.

(9) Assessment Rule Compliance: The bill provides that noncompliance with assessment rules and policies is evidence that an assessment is incorrect.

(10) Inventory Deduction: This bill changes the 100% deduction for inventory into an exemption.

(11) Property Tax Management System: The bill requires the Department of Local Government Finance to establish a uniform and common property tax management system.

(12) Income Tax Deductions and Credits: This bill increases (A) the state adjusted gross income renter's deduction, (B) property tax deduction (for taxpayers who pay 2007 property taxes in 2008), and (C) earned income tax credit.

(13) Levy / Spending Controls and Referenda: The bill imposes additional spending and property tax levy limits on political subdivisions, eliminates excessive levy appeals, and requires spending and levies in excess of the tax and spending limits to be approved in a referendum.

(14) Local Tax Review: This bill transfers the duties of the county board of tax and capital projects review to the county council. It also requires the county council to review budgets, tax levies, and tax rates of all political subdivisions in a county.

(15) Debt / Capital Review: The bill requires nonelected bodies to get the approval of a city, town, or county fiscal body before issuing certain bonds or entering into certain leases.

(16) School Capital Projects and Standardized Plans: This bill requires school corporations to obtain approval for certain bond issues and lease agreements in a referendum and to use standardized school building plans.

(17) LOIT: The bill replaces the authority of a county to impose three additional local option income tax rates (i.e., annual levy growth rate; public safety rate; property tax replacement credit rate) with a single rate not to exceed 1%. It preserves rates imposed before January 1, 2008. It also requires the Commission on State Tax and Financing Policy to study alternative methods for the distribution of local option income taxes.

(18) Property Tax Rebates: This bill permits counties to retain surplus property tax rebate distributions.

(19) Sales Tax Increase: The bill increases the gross retail and use tax to 7%.

(20) CHINS and Delinquent Children: This bill provides adoption subsidy procedures and procedures for adjudicating and treating children in need of services and delinquent children.

(21) School Reserves: The bill establishes a School Contingency and Reserve Account.

(22) Study Committee: This bill establishes the Transportation Study Committee.

(23) The bill makes related changes and it makes appropriations.

Effective Date: January 1, 2003 (Retroactive); July 1, 2007 (Retroactive); September 30, 2007 (Retroactive); December 31, 2007 (Retroactive); January 1, 2008 (Retroactive); February 29, 2008 (Retroactive); March 1, 2008 (Retroactive); April 1, 2008 (Retroactive); May 1, 2008; Upon Passage, July 1, 2008; January 1, 2009; July 1, 2009.

Summary of NET State Impact: (Revised) The following represents the net impact on the state General Fund and Property Tax Replacement Fund for FY 2008 through FY 2010.

Table 1. Net Impact on the General Fund and the Property Tax Replacement Fund ($M).

	FY 2008		FY 2009		FY 2010	
Provision	**Rev**	**Exp**	**Rev**	**Exp**	**Rev**	**Exp**
Homestead Credit		350.0		350.0		
Eliminate PTRC/Homestead Credits				(1,014.3)		(2,028.5)
School General Fund Levy Takeover				1,083.8		2,207.6
School Transportation Levy Takeover				241.6		494.3
Child Welfare Levies Takeover				228.0		469.2
State Fair/State Forestry/DLGF				3.9		7.9
Sales Tax (+ 1%)	151.9		935.4		958.2	
Redirect Slot Wagering Tax			27.9		87.5	
Earned Income Tax Credit			(29.6)		(31.7)	
Renter's Deductions			(52.7)		(53.2)	
Eliminate Juvenile Incarceration Billing			(11.4)		(22.8)	
Total	151.9	350.0	869.6	893.0	938.0	1,150.5
Net Difference	(198.1)		(23.4)		(212.5)	

Note: State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.

Explanation of State Expenditures: *(1) Levy Elimination:* The state would make distributions to replace the levies that would be eliminated under this bill, and it will forego revenues from counties to help pay for juvenile incarceration. The state's additional cost (including reduced revenue from the counties) is estimated at $1,568.6 B in FY 2009 and $3,201.7 B in FY 2010.

(2) Circuit Breaker: Hospital Care for the Indigent (HCI) collections are transferred by the counties to the state HCI fund to be used to leverage federal Medicaid matching funds. $30 M is transferred to the Medicaid program. The balance of the fund is transferred to the Medicaid Indigent Care Trust Fund to be used to leverage federal Medicaid matching funds for increased payments to emergency transportation and physician providers, payments to HCI hospital providers, and other supplemental hospital payments. The gross HCI levy is estimated to raise $63.0 M in CY 2008; $65.6 M in CY 2009; and $68.5 M in CY 2010. If the circuit breaker reduces the amount of HCI funding available to be transferred to the state, funds available for leveraging federal matching funds would be reduced accordingly.

The Medicaid program is jointly funded by the state and federal governments. The state share of program expenditures is approximately 38%. Medicaid medical services are matched by the federal match rate (FMAP) in Indiana at approximately 62%. Administrative expenditures with certain exceptions are matched at the federal rate of 50%.

(4) Senior Tax Deferrals: This bill would allow a homeowner who is at least 65 years of age, blind, or disabled (or, subject to certain conditions, who is the surviving spouse of such an individual) to defer part of their property tax increase each year, subject to limitations. The bill would set a base tax amount for all qualified homeowners and would allow deferrals for taxes due in the current year that exceed the base tax amount. If a currently qualified taxpayer would have met the qualification requirements on March 1, 2003, then the initial base tax amount would be the minimum of (1) 125% of the 2004 net tax amount or (2) the 2005 net tax amount. If the taxpayer would not have met these initial qualification requirements on March 1, 2003, then the base year would equal the tax in the year in which the taxpayer first qualifies. In both cases, the base amount would increase each year either by the net tax increase or by 10% of the previous year's base amount, whichever is smaller.

The state would pay the counties the amount of property taxes deferred during each year. The bill makes an appropriation from the General Fund of the amount necessary to make the distribution. Taxpayers would repay the amount deferred with interest to the county when the property is sold or when the value of the deferral exceeds the value of the property. Interest starts accruing five years after that year's deferral and accrues interest at the rate set for delinquent taxes. Repayments would be transferred from the county to the state.

When the property is sold the state would recover the amount the state had paid in deferrals plus interest after 5 years. The short-term impact could be significant if significant increases in property taxes occur. The long-term impact would be a loss of state interest earnings on the money given for the first years of deferral and if the state could earn a higher interest rate than the interest paid on deferred taxes.

The impact of the senior tax deferral program would depend on the number of homeowners who are 65 or older, blind, or disabled and had more than a 25% increase in property taxes in CY 2005 or 10% in a year after CY 2005. Based on estimates from income tax data and parcel data, approximately 320,000 taxpayers would be currently eligible for this deferral. In CY 2008, if they wish, they could defer up to approximately $2.5 M out of total taxes of approximately $306.5 M; in CY 2009 they would be eligible to defer approximately $12 M out of $368 M in total taxes; in CY 2010 they would be eligible to defer approximately $10 M out of $381 M in total taxes. Because of the differences between the taxpayer groups and because not every eligible taxpayer would apply for the deferral, the actual amount deferred would most likely be lower than these estimates.

(5) PTRC/Homestead Credits: The state currently pays Property Tax Replacement Credits (PTRC) in the

amount of 60% of school general fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits (HSC) are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

The maximum expenditure for PTRC and HSC is $2,028.5 M in each of CY 2008 and CY 2009. These credits are paid from the Property Tax Replacement Fund (PTRF). In addition, $250 M in supplemental homestead credits will be paid from the Property Tax Reduction Trust Fund in CY 2008 under current law.

In addition to the $250 M in supplemental homestead credits under current law, this bill would appropriate $700 M from the PTRF for homestead credits to be paid in May and November of 2008. If money in the PTRF is insufficient to make the required distributions, the deficiency is to be temporarily transferred from the state General Fund.

After CY 2008, all PTRC and homestead credits would cease under this bill. State savings are $2,028.5 M in CY 2009 and $2,028.5 M in CY 2010 (assuming current funding trends would have continued), or $1,014.3 M in FY 2009 and $2,028.5 M in FY 2010.

(7) Elimination of Elected Township Assessors: The DLGF will need to adjust current exams that allow books to be open and develop instructions for the transfer of records from holders of eliminated offices. Both of these functions are within the current scope of agency work. Also, the DLGF will determine the proper place of assessment if disputes arise. Currently, the county assessor makes the determination if the dispute is between townships, and DLGF has responsibility for disputes between counties.

(10) Inventory Deduction: Under current law, business inventory is subject to assessment. Beginning with taxes payable in 2007, inventory owners receive a 100% deduction against the assessed value of their inventory. So, the net AV of inventory in all counties is now zero.

This bill would change the definition of personal property to exclude inventory. It would also repeal all inventory deductions and exemptions. There would be no change in the tax base as a result of this proposal.

This bill would reduce the reporting requirements of business taxpayers and would reduce administrative burdens for county assessors, county auditors, and the DLGF. The DLGF currently must prescribe new assessment forms each year. It also must annually set the assessed value of agricultural inventory. The state would realize some savings of resources that are devoted to these functions.

(11) Property Tax Management System: The bill would require the DLGF to develop a statewide property tax system that includes, but is not limited to, computer hardware, assessment software, tax and billing software, property tax management systems, and computer services. This system would be used in all counties beginning July 1, 2012. The DLGF would pay for the system.

The DLGF prepared a study in 2004 that examined the feasibility of a statewide system. That report pegged the cost of implementing a statewide system at $57.5 M and the annual operating cost at $5.5 M.

(12) & (19) Department of State Revenue (DOR) - The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the tax deduction and credit changes in the bill. The DOR's current level of resources should be sufficient to implement these changes.

(12 C) Earned Income Tax Credit (EITC) - The refundable portion of the EITC that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as maintenance of effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the current 6% EITC could potentially total about $11.0 M to $12.0 M annually. The amount of additional refund amounts that could potentially be claimed by TANF participants is indeterminable.

(13) Levy Controls: Under this bill, budgets, rates, and levies would be reviewed and certified locally, rather than by the DLGF, beginning in CY 2009. The DLGF's total budget appropriation for FY 2009 is $5.6 M, covering both budget and assessment oversight duties. A February 2007 report from the DLGF indicated that 22 out of 65 employees were assigned to the Budget Division, with 16 of those being field representatives. This bill's elimination of the DLGF's budget oversight duties would result in either a cost savings to the state and/or a reallocation of resources to the DLGF's other duties. The bill requires the DLGF and the State Board of Accounts to assist counties in the transition, through December 31, 2009.

(16) School Standardized Plans: The bill would require the Department of Education (DOE) to develop a series of standardized plans for school construction and renovations. DOE would likely need to add staff who can develop or modify a series of plans for new school facilities. Prior to 1995, DOE employed four professional staff to review construction proposals.

Assuming that at least four staff members at $68,033 and one administrative assistant at $30,799 would be needed to perform this function, a portion of the cost would be $421,801 for FY 2009 and $420,428 for FY 2010. The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. DOE had 74 vacant positions worth $733,066 as of January 14, 2008. Of the vacant positions, 35 had been vacant for more than two years. DOE reverted about $5.2 M to the state General Fund on June 30, 2007. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

School new construction projects included architect fees of about $30.3 M in CY 2007. The cost would depend on the number of plans developed by DOE and by outside consultants, but DOE costs could range from $2 M to $3 M in the first year.

(20) Department of Child Services (DCS): Adoption Subsidy: The bill provides that DCS would have authority to provide adoption subsidies for hard-to-place children. These payments can be made if the Department has reached an agreement either with the adoptive parents or through administrative appeal and sufficient funds are available to provide the subsidy. Additionally, a medical subsidy can also be provided by the Department for medical expenditures related to the care and treatment of preexisting conditions before adoption finalization. The bill provides conditions under which this medical subsidy can be provided.

If DCS determines that there are not sufficient funds available to provide the adoption subsidy, DCS is authorized to approve new adoption subsidy agreements only for the benefit of children the Department has wardship over and give priority to these agreements and payments required by court order.

DCS would also have the authority to require adoptive parents to provide a verified report containing information identified in the legislation as a condition of continued receipt of the subsidies. If information in the report indicates a substantial change in conditions in the original adoption subsidy agreement between the adoptive parents and DCS, the Department has the ability to modify or discontinue subsidy payments. The legislation also stipulates conditions where payments of the subsidy will be discontinued as well as conditions where subsidy payments can be extended past the adoptive child's age of 18.

Juvenile Offenders: The bill provides that DCS would be required to provide and administer services to children adjudicated as juvenile offenders as well as pay for programs and services provided under juvenile law. However, the costs for secure detention will still be paid by the county.

Assistance for Destitute Children: The bill transfers responsibility of providing assistance for destitute children to DCS. DCS also is to complete an investigation of a destitute child whenever there is an application for benefits for the child. Funding for any assistance provided will come directly from the State Family and Children's Fund.

(1 C - 1 F) Child Welfare Programs: The legislation allows DCS to establish and fund a child welfare program for purposes defined in the legislation. The bill creates the Child Welfare Program Fund which is intended to fund child welfare programs. Money in this fund can come from appropriations made by the General Assembly, any part of the State Family and Children's Fund set aside by the director of DCS, any part of federal grant funds, and any gifts made to DCS. Additionally, DCS would be required to assess these programs and can modify programs based on these reports.

The State Budget Agency is allowed to redirect funds from the state General Fund, pending approval by the Budget Committee, in order to provide financing for any obligations DCS incurs outside of appropriations made by the General Assembly.

DCS reports that they currently offer several child welfare programs as defined in the legislation. These programs are currently funded with a combination of federal, state, local, and dedicated funds.

State Administration of Child Welfare: The bill allows the state to consolidate local offices into regions or districts. This provision would allow the state to centralize office operations of the Division of Family Resources and the Department of Child Services for increased efficiency and better use of resources. Any savings in operating costs that would accrue to the state depends on administrative actions.

The bill provides a procedure for a local or district office of family resources to designate an administrator for a recipient of public assistance who is incapable of managing his or her own financial affairs. The bill specifies the office must petition the court in the county in which the recipient lives.

The bill specifies that counties remain responsible for all bonds issued and loans made for welfare purposes before January 1, 2009.

The bill specifies that the Department of Child Services is responsible for the costs of a child under DCS custody who is placed in a state institution or the Indiana Soldier's and Sailor's Children's Home by or with the consent of DCS.

Children In Need of Services (CHINS) and Foster Care: The legislation requires DCS to handle matters associated with the placement and care of CHINS when ordered by a court. Responsibility for costs associated with foster care will fall on DCS under the legislation.

Responsibility for Juvenile Offenders: The legislation also shifts responsibility for handling juvenile offenders from the county to DCS. This responsibility includes programs of informal adjustment (a form of probation for juvenile offenders). The maximum juvenile informal adjustment period is reduced from 6 to 3 months unless otherwise approved by the juvenile court. Supervision of a child put on probation under the legislation (not informal adjustment) by a juvenile court is to be supervised only by the probation department and removes potential responsibility from either the county office of family and children or DCS.

Additionally, DCS is not responsible for any child services costs if a juvenile court orders services, programs, or placement that are not eligible for Title IV-E of the Social Security Act and have not been recommended or approved by DCS.

Expenditures for services provided to juvenile offenders or legal guardians of offenders are required to be reimbursed by the legal guardians of offenders unless a court finds that the guardians are unable to pay or justice would not be served by requiring this payment.

For delinquents committed to the Department of Correction, state expenditures could increase between $23 M and $32 M annually to offset the revenue loss from this provision. The expenditure amount will depend on the number of new juveniles committed to DOC each year.

Payment of Child Services: The bill requires DCS to pay for any child services provided through DCS from the State Family and Children's Fund for any child, child's parent guardian, or custodian. DCS is also responsible for paying for any costs associated with returning a child under the interstate compact law.

Staff for Local Offices of DCS: The bill changes responsibility of county offices of family and children to DCS. The Director of DCS is required to appoint staff necessary to continue operations and determine staff pay. These offices are to be established by DCS to serve a county or region. It will allow for consolidation of the local offices in regions designated by DCS, and costs savings may be realized depending on administrative actions.

(21) School Reserves:

Tuition Reserve Account: Beginning FY 2010, the State Budget Agency is to maintain funds in the Tuition Reserve Account to provide an amount available to schools in years when state tax revenues are insufficient to fully fund the operation of the schools. This amount does not revert to the state General Fund and is to be in addition to the existing amounts in the Tuition Reserve Account. During FY 2009, $50 M is to be transferred from the state Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund) into the Tuition Reserve Account. Currently, the Tuition Reserve Account maintains a balance of $316.6 M. This additional transfer from the Rainy Day Fund would increase the balance to $366.6 M.

School Contingency and Reserve Account: The bill creates the School Contingency and Reserve Account within the state General Fund. The account is to be used to provide timely payment of state tuition support and costs attributable to school transportation. The bill transfers $150 M from the Rainy Day Fund to the account before January 1, 2009. Remaining funds at the end of the fiscal year do not revert to the state General Fund.

Impact on the Rainy Day Fund: The balance of the Rainy Day Fund as of June 30, 2007, was $344.3 M and is estimated to be $379.3 M by June 30, 2009. These two transfers totaling $200 M in FY 2009 will reduce the fund balance to approximately $179.3 M.

(22) Study Committee: The bill establishes the School Transportation Funding Formula Study Committee to make recommendations on a school transportation formula to the 2009 General Assembly. The committee consists of eight legislators. The cost of the committee would probably be less than $9,500.

Explanation of State Revenues: *(12 A) Renter's Deduction* - The bill increases the maximum renter's deduction under the individual Adjusted Gross Income (AGI) Tax from $2,500 to $5,000 beginning in tax year 2008. The deduction increase is estimated to reduce individual AGI Tax revenue by about $52.7 M in FY 2009. It is estimated that the revenue loss could grow by about 1% annually thereafter.

Under current law, a taxpayer may deduct from his or her state taxable income an amount equal to the total rent paid during a tax year up to $2,500. The rent deducted must be paid on the taxpayer's principal place of residence. In 2005, about 641,000 taxpayers deducted rent totaling approximately $1,476.9 M under the renter's deduction. From 1989 to 2005 the number of taxpayers claiming the deduction increased by almost 0.9% annually. The estimate assumes that all taxpayers currently claiming the deduction will be able to utilize the full increase in the deduction and assumes that the current trend in total deductions persists.

(12 B) Homeowner's Property Tax Deduction - The bill increases the maximum allowable homeowner's property tax deduction under the individual AGI Tax in tax year 2008 only. The increase in the maximum allowable deduction would apply only to homeowners who pay any or all of their 2006 Pay 2007 property taxes in 2008. This provision will not result in additional revenue loss to the state, but will shift revenue loss that would otherwise occur in FY 2008 (attributable to tax year 2007 AGI tax payments) to FY 2009 (attributable to tax year 2008 AGI tax payments). The precise revenue loss that could potentially be shifted is indeterminable.

(12 C) Earned Income Tax Credit (EITC) - The bill increases the EITC under the individual AGI Tax from 6% to 9% of the federal Earned Income Tax Credit beginning in tax year 2008. The bill also repeals the expiration of the EITC under current statute. Currently, the EITC expires December 31, 2011. The credit increase is estimated to reduce individual AGI Tax revenue by about $29.6 M in FY 2009. The revenue loss is estimated to grow by about 7.1% annually thereafter.

In 2005, about 428,000 taxpayers claimed the EITC, with credits totaling about $47.4 M. The number of taxpayers claiming the EITC has grown by an average of 4.3% per year. The total credits claimed by taxpayers has grown by an average of about 7.1% per year.

(19) Sales Tax Changes: The changes to the Sales Tax contained in this bill will increase state revenues by approximately $151.9 M in FY 2008, $935.4 M in FY 2009, and $958.2 M in FY 2010.

The bill increases the Sales Tax rate by 1%, from 6% to 7%, beginning April 1, 2008. The April 1, 2008, effective date means that there will be two months of remittances by retailers in FY 2008 (May and June). The bill also changes the distribution formula for Sales Tax revenues as follows.

	Distribution Formula	
	Current	**Under Bill**
PTRF	50.000%	0.000%
State General Fund	49.067%	99.196%
Public Mass Transportation Fund (PMTF)	0.760%	0.654%
Industrial Rail Service Fund (IRSF)	0.033%	0.028%
Commuter Rail Service Fund (CRSF)	0.140%	0.122%
TOTAL	**100.00%**	**100.00%**

The bill repeals the current Property Tax Replacement Fund (effective January 1, 2009) and directs all new revenues from the Sales Tax increase to be deposited in the state General Fund, while holding the other funds "harmless".

The table below shows the impact on the revenue deposited in the funds that are currently part of the Sales Tax distribution formula.

	Impact on Funds ($M)								
	FY 2008			**FY 2009**			**FY 2010**		
	Current	**Under Bill**	**Change**	**Current**	**Under Bill**	**Change**	**Current**	**Under Bill**	**Change**
PTRF	$471.2	$0.0	($471.2)	$2,895.9	$0.0	($2,895.9)	$2,966.4	$0.0	($2,966.4)
State G.F.	$462.4	$1,085.5	$623.1	$2,841.8	$6,673.1	$3,831.2	$2,911.0	$6,835.6	$3,924.5
PMTF	$7.2	$7.2	$0.0	$44.0	$44.0	$0.0	$45.1	$45.1	$0.0
IRSF	$0.3	$0.3	$0.0	$1.9	$1.9	$0.0	$2.0	$1.9	$0.0
CRSF	$1.3	$1.3	$0.0	$8.1	$8.2	$0.1	$8.3	$8.4	$0.1
TOTAL	**$942.3**	**$1,094.3**	**$151.9**	**$5,791.7**	**$6,727.2**	**$935.4**	**$5,932.8**	**$6,891.0**	**$958.2**

The FY 2008 estimates represent a two-month adjusted amount due to the April 1, 2008, effective date of the rate increase. These estimates are based on the December 13, 2007, State Revenue Forecast.

The estimate was decreased by $0.55 M in FY 2008, $1.72 M in FY 2009, and $1.76 M in FY 2010 since there was no decrease in the collection allowance to hold harmless those retail merchants with Sales Tax liability less than or equal to $600,000 in the year preceding the year of remittance. However, this bill decreases the collection allowance for the largest retail merchants beginning July 1, 2008. (Currently, retailers that remit more than $600,000 in Sales Taxes in the immediately preceding year are entitled to keep 0.3% of their remittances in the current year, so long as they remit in a timely manner. The bill decreases this collection allowance from 0.3% to 0.25%. The estimated increase in collections is based on 2005 collection allowance statistics applied to the revenue estimate for Sales Tax collections occurring after the 1% rate increase that also appears in this bill. Although this provision is effective April 1, 2008, the bill provides that the decreased collection allowance applies only to those reporting periods occurring after June 30, 2008.)

Revenue Distribution Changes: The bill redistributes:

(1) Sales Tax revenue from the PTRF to the state General Fund, effective May 1, 2008.
(2) Individual Income Tax and Riverboat Wagering Tax revenue from the PTRF to the state General Fund,

effective January 1, 2009.
(3) Slot Machine Wagering Tax from the Property Tax Reduction Trust Fund to the state General Fund, effective January 1, 2009.

Under current statute, 49.067% of Sales Tax revenue, 14% of Individual Income Tax revenue, and 37.5% of Wagering Tax revenue collected from the French Lick casino is distributed to the PTRF. In addition, Wagering Tax revenue collected from the remaining 10 riverboat casinos after local revenue distributions and deductions for Gaming Commission administrative expenses and local revenue sharing is distributed to the PTRF. Slot Machine Wagering Tax revenue from slot machine operations at Hoosier Park and Indiana Downs is currently to be distributed to the Property Tax Reduction Trust Fund.

Redirection of Slot Wagering Tax - The current revenue estimate for the Slot Machine Wagering Tax is $77.9 M in FY 2009 and $87.5 M in FY 2010. However, $50 M of the anticipated FY 2009 tax revenue was appropriated in HEA 1001-2007 for the CY 2008 Homestead Credits. This would leave an estimated $27.9 M in FY 2009 and $87.5 M in FY 2010, which would revert to the General Fund with the repeal of the Property Tax Reduction Trust Fund.

(1 C - 1 F) State Family and Children's Fund: The legislation creates a new account in the General Fund called the State Family and Children's Fund. This fund consists of three different accounts designated to finance the operations required in the legislation. These three accounts in the State Family and Children's Fund are called the Adoption Assistance Account, Child Welfare Program Fund, and the Child Trust Clearance Account.

(20) Adoption Fees: The bill provides that adoption fees will now go to the state instead of the county. These fees are to be placed in the Child Trust Clearance Account.

Gifts and Bequests: The legislation allows DCS to administer and receive gifts, devises, or bequests that are intended to aid children under supervision or care of the department. This revenue is designated for purposes of the Child Trust Clearance Account and with the intention of the donor.

(7) Class A Misdemeanor for Assessing Duties: By including all assessing officials and representatives of the DLGF, the bill increases the pool of potential violators of provisions concerning proper assessment and assessing responsibilities, Class A misdemeanors. If additional court cases occur and fines are collected, revenue to both the Common School Fund (from fines) and the state General Fund (from court fees) would increase. The maximum fine for a Class A misdemeanor is $5,000.

Explanation of Local Expenditures: *(1 A) School General Fund Expenditures:* Under current law, schools can use the school General Fund for any school lawful expenditure except transportation. The bill would prohibit general fund expenditures for debt service or costs attributable to capital outlays. For FY 2007, schools spent about $30.2 M from the school general funds on these costs ($11.1 M on debt service and $19.1 M on capital outlays). Schools would need to transfer these expenditures to the debt service fund and capital projects fund. School debt service and capital project fund levies could potentially increase by an amount corresponding to the reduction in the school general fund expenditures.

School Formula: The bill eliminates the tuition support levy calculations. The CY 2009 tuition support levy would have been about $2,167.6 M. The bill increases the tuition support appropriation for FY 2009 by about $1,083.8 M, the reduction in the tuition support levy for the first six months of CY 2009. The bill also specifies that the additional appropriation is not subject to the CY 2009 maximum state tuition support distribution.

(1 B) School Transportation: The bill eliminates the school transportation fund levy for CY 2009 and appropriates from the state General Fund for FY 2009 an amount equal to the loss in revenue due to the removal of the levy. The additional appropriation would be about $241.6 M. Each school corporation would receive a distribution from the state equal to the loss in revenue for the first six months of CY 2009.

(4) Senior Tax Deferrals: The bill could increase the county property tax administrative costs. The county would have to keep track of the deferrals on each piece of property. It is unknown what the cost of tracking the deferrals might be.

(6) Homestead Filing: Under current law a taxpayer may claim the homestead credit on homestead property owned on March 1 of the assessment year. The taxpayer must file an application with the county auditor of the county in which they own the property by June 10 of the assessment year. Taxpayers who receive the homestead credit automatically qualify for the standard deduction.

This bill would:
1) Change the application filing deadline to any time before the first installment of tax is due; and
2) Enable the taxpayer to use the sales disclosure form as a standard deduction application form.

This bill could enable additional taxpayers to qualify for the standard deduction each year. If the application is filed after the certification of tax rates, the bill would prohibit levy adjustments to compensate for the AV loss. The result is a revenue loss for the affected taxing units.

(7) Elimination of Elected Township Assessors: Effective July 1, 2008, the duties of township assessor transfer to the county assessor and the only duty of elected township assessors will be the transfer of records to the county assessor. For townships that do not have elected township assessors (generally townships with less than 8,000 population), assessing responsibilities of the trustee-assessor will transfer to the county assessor, but the trustee will remain in office and execute other office responsibilities. Any change in the number of individual appraisers needed to complete an assessment or reassessment is indeterminate and based on the situation of the individual township and county. Short-term costs may increase to organize and transfer records and tangible property between the township assessor and county assessor.

[Currently, townships with a population of more than 8,000 elect a township assessor. Townships with a population between 5,000 and 8,000 may elect a township assessor if the legislative body of the township adopts a resolution indicating that a township assessor is necessary and the resolution is filed with the county election board. A township trustee in a township with less than 5,000 population serves as the township assessor. In 2000, there were 1,008 township assessors in Indiana, of which 827 are trustee-assessors. Of the trustee-assessors, an estimated 627 did not reach the level of certification required by current statute to retain assessing duties and these duties will transfer to the county assessor as of December 31, 2007.]

(7) Class A Misdemeanor for Assessing Duties: A Class A misdemeanor is punishable by up to one year in jail.

(10) Inventory Deduction: Counties must print property tax returns and furnish them to county taxpayers upon request. Printing costs could be slightly reduced if inventory assessments are removed from the forms. Counties would realize some savings of resources that are devoted to handling property tax returns,

especially in cases where inventory-only returns are currently being filed. For the 2002 payable 2003 tax year, there were approximately 170,000 property tax returns filed statewide with reported inventory.

(13) Bond Limit for Review: Currently, a unit's capital project is required to be reviewed by the County Board of Tax and Capital Projects Review if the project is a controlled project of more than $7 M. The bill would require review of projects more than the greater of $2 M (the threshold for a controlled project) or 1% of the unit's AV. There are about 2,681 local units. The bill would reduce the threshold for about 534 of the tax units. The impact will depend on changes made to projects that will now require review by the board.

(15) Debt / Capital Review: Under this bill, the governing body of a taxing unit would not be permitted to issue bonds or enter into leases unless a majority of the members are elected. Governing bodies that are not majority-elected would have to obtain the approval of the city, town, or county fiscal body. This provision would add additional oversight when an appointed board seeks to incur debt.

(16) School Non-Educational Referendums: The bill would provide for a referendum for school sports, recreational, or fitness program capital projects that are greater than $10 M or 1% of a school's net AV. The bill could reduce the capital projects cost of sports, recreational, or fitness projects.

(20) Child Services: (A) Adoption Subsidies: The bill will remove responsibility of county offices of family and children and shift the responsibility to the state. *(B) Costs of Secure Detention*: Counties will still be required under the legislation to pay for all costs of secure detention, other than any costs that are paid from nonpublic funding. These costs include facility costs, costs of detaining children, and services provided. *(C) Delinquent Child Services*: The bill adds that if a court places a delinquent child in facilities outside of the state, DCS is not responsible for these costs; rather, the county where a delinquent child resides will be responsible. DCS reports that typically county funds are currently used to finance these costs. *(D) CHINS*: The legislation requires DCS to handle matters associated with CHINS. *(E) Delinquents Committed to DOC--* Counties with an outstanding balance prior to January 1, 2009, will still need to pay the amount that they owe the state. As of October 1, 2007, 79 counties still owed the state a combined $46.8 M. The amounts that counties owed ranged from a high of $36 M (Marion County) to a low of $3,660 (Clay County).

Local Offices of DCS: The bill gives control of the county offices to DCS and allows the Department to consolidate offices that are located in regions.

(16) *School Standardized Plans:* The DLGF approved school new construction projects worth $597.6 M during CY 2007. Of the $597.6 M, $30.3 M was budgeted for architect fees on the construction projects. After June 30, 2008, when DOE has developed the standardized plans, local school corporations have to use the plans developed by DOE. Architect fees for construction of new school facilities should diminish significantly.

Explanation of Local Revenues: *(1) Levy Elimination:* Beginning with taxes payable in 2009, this bill would eliminate the property tax levies for several funds as follows.

Fund Name	Est. 2009 Gross Levy ($M)	Est. 2010 Gross Levy ($M)
State Fair	$ 2.6	$ 2.7
State Forestry*	5.2	5.4
County Family and Children	416.8	440.8
County Children's Psychiatric Residential Treatment Services	17.5	18.7
County Medical Assistance to Wards	13.7	14.4
Children with Special Health Care Needs	8.1	8.4
School General	2,167.6	2,247.6
School Transportation	483.1	505.4
Juvenile Incarceration Paid From County General Fund	22.8	22.8
Total	**$ 3,137.3**	**$ 3,266.1**

* State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.

The state would make distributions to replace the levies that would be eliminated.

Tax Increment Financing (TIF): The elimination of tax levies coupled with the supplemental homestead deduction and the elimination of PTRC would affect net tax rates. If the net tax rate is reduced in a TIF area, the net TIF proceeds could also be reduced. Currently, the TIF governing body may recover TIF proceeds that were lost due to the 60% PTRC on the school general fund levy through the imposition of a property tax levy. Under this bill, the TIF governing body would be permitted to levy a tax to recover TIF proceeds lost due to (1) the enactment of laws by the General Assembly and (2) actions taken by county review boards.

Excise Tax Revenue: The current "excise taxes" (i.e., auto excise, commercial vehicle, and financial institutions taxes) to local units for a fund are based on the property tax levy that fund receives. For the school general fund, school transportation fund, the county medical assistance to wards fund, family and children's fund, children's psychiatric residential treatment services fund, and children with special health care needs fund, the bill would set the CY 2009 excise revenue to the 2008 amount.

The following chart shows the excise tax collections for CY 2006.

CY 2006 Excise Tax Revenue Distribution	
School General Fund	$197.9 M
School Transportation Fund	41.9 M
Family & Children's Fund	29.0 M
Children's Psychiatric Residential Treatment Services Fund	1.5 M
Medical Assistance to Wards Fund	1.1 M
Children with Special Health Care Needs Fund	0.7 M
Total	**$272.1 M**

(2) Circuit Breaker: Under current law, the property tax circuit breaker credit applies only to homesteads in 2008 and 2009, and all other property in 2010. The credit equals the amount by which net taxes exceed 2% of gross assessed value. The credit is reduced by the amount of the credit that would otherwise be attributable to the school general fund. After 2009, the circuit breaker credit will apply to homesteads at the 2% gross AV threshold and to all other real and personal property at a 3% gross AV threshold.

This bill would make changes to the circuit breaker credit beginning in CY 2009. The circuit breaker would apply as follows:
1% gross AV threshold – Homesteads.
2% gross AV threshold – Residential rental property, commercial apartments, long-term care facilities, land under mobile homes, and both real and personal property used for agricultural purposes.
3% gross AV threshold – All other real and personal property.
The credit for homestead property with a gross AV under $200,000 that is owned by an individual who is at least 65 years old and has income under $35,000 ($50,000 joint), would be equal to the amount of net tax that exceeds the 2008 net tax on the property. The bill also stipulates that the income limit would be adjusted annually to reflect any increase in the cost of living.
There would be no adjustment for credit amounts attributable to the school general fund.

The additional $700 M in additional homestead credits authorized under this bill would reduce homeowners' taxes in CY 2008, thereby reducing the cost of the existing 2008 circuit breaker by an estimated $8.6 M, from a total of $12.2 M down to $3.6 M.

Changes to the structure of the circuit breaker, coupled with the elimination of levies and the supplemental homestead deduction would result in an increased circuit breaker cost beginning in CY 2009. **The estimated total cost of the circuit breaker under the bill is $636.6 M in CY 2009 and $635.6 M in CY 2010**, an increase of $611.5 M in CY 2009 and $428.9 M in CY 2010. Circuit breaker credits reduce revenue to local civil taxing units and school corporations. Additional credits further reduce revenues. Some of these lost revenues could be recouped from the additional LOIT authorized by this bill.

<u>Note:</u> The bill treats rental property that is used as a principal residence differently from second homes and short-term rentals. The circuit breaker threshold would be 3% under the bill if the home is a second home or short-term rental. However, data constraints do not allow identification of non-homestead residential properties as principal rentals or as something other. The reported estimates assume that all non-homestead

residential property is subject to the 2% threshold. This may result in inflated circuit breaker cost estimates in some cases.

The bill states that civil taxing units and school corporations must fully fund debt and lease rental payments regardless of any revenue loss realized from the circuit breaker credits. Revenue reductions would be applied to other funds after debt and lease payments are fully funded. In addition, the bill would require the State Treasurer to withhold distributions from a taxing unit and to make debt payments on behalf of a taxing unit that fails to make a payment.

(3) Homestead Supplemental Deduction: Under current law, homesteaders receive a property tax standard deduction equal to the lesser of one-half of the homestead's gross assessed value or $45,000 for taxes payable in 2008, $44,000 for 2009, $43,000 for 2010, $42,000 for 2011, $41,000 for 2012, and $40,000 thereafter. Under this proposal, the schedule for the traditional deduction would remain the same.

However, homesteaders would also receive a supplemental deduction beginning with taxes payable 2009. The supplemental deduction would be determined for each homestead on the following graduated scale, based on the homestead's net AV after subtracting off the traditional standard deduction, but before any other deduction.

Net Homestead AV After Standard Deduction	**Supplemental Deduction %**
From $1 to $200,000	35%
From $200,001 to $300,000	30%
From $300,001 to $400,000	25%
From $400,001 to $500,000	20%
From $500,001 to $600,000	15%
From $600,001 to $700,000	10%
From $700,001 to $800,000	5%
Over $800,000	0%

The total amount of the new deduction is estimated at $52.0 B for taxes payable in 2009 and $54.7 B for taxes payable in 2010.

(7) Class A Misdemeanor for Assessing Duties: If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from court fees. However, any change in revenue would likely be small.

(8 A) Assessment Standards - Strip-mined Property: Under current law, land that has been stripped for coal is assessed as farmland with a productivity factor of 0.50 if it was stripped before December 31, 1977, and with a productivity factor of 0.68 if stripped after that time.

This bill would require a change to the productivity factor from 0.50 to 0.75 for land that was stripped prior to December 31, 1977. The assessed value of this land would increase by 50%.

The bill would also change the assessment on land stripped after December 31, 1977, that has had the bond or bond equivalent released. The bond is released when the land has been reclaimed or put back to its original state. This land would be assessed as other farmland. The assessment on reclaimed land would increase by 47%. Specific information regarding the total fiscal impact of this provision is not available.

(8 B) Assessment Standards - Residential Improvements: Under this provision, the increase in assessed value (AV) resulting from the rehabilitation or enlargement of residential real property improvements would qualify for property tax deductions over a period of three years. The deduction would be available for both homesteads and non-homestead residential property (1-3 units). It would first apply for taxes payable in 2009. The deduction would equal 75% of the AV increase in the first assessment year, 50% in the second year, and 25% in the third year. The deduction would not be available after the third year.

Taxpayers would not be permitted to claim more than one deduction for which the rehabilitation or addition may qualify. This restriction would not limit the available deductions on the existing property such as the standard, mortgage, blind/disabled, and veterans deductions.

The proposed deduction would slow the growth of residential real property AV as it applies to rehabilitations and enlargements. If there is an increase in rehabilitation activity because of the availability of the deduction, then the new activity would provide for an eventual increase in the tax base.

Tax shifts would occur between existing and rehabilitated or enlarged property. Generally speaking, the addition of assessed value to the tax base provides a tax shift from existing property to new or rehabilitated property by spreading the tax levy over a larger tax base. The proposed deduction would slow the shift from all property to the rehabilitated or enlarged residential property. The shift could, however, be accelerated if rehabilitation work increases as a result of the proposal.

Tax shifts would also occur between property classes. The varying rates at which assessed values in each class of property grow in relation to each other determine each class's relative share of the tax burden. The extent to which the growth rate for residential property AV is affected by this bill would determine whether any tax shifts will occur between classes. Assuming that the property would have been rehabilitated or enlarged regardless of the deduction, this bill would shift some taxes from residences to other property classes. However, if rehabilitation work increases as a result of the proposal, then taxes would shift to residences.

(8 C) Assessment Standards - Steel Mills and Oil Refinery Property: Under current law and DLGF rule, business personal property is valued according to a depreciation schedule as specified in the rule. Most taxpayers list the cost of depreciable property in one of four “pools”, depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The asset cost is multiplied by the appropriate “percent good” factor in the depreciation schedule to produce the total true tax value (TTV) of the assets. The TTV of all of a taxpayer’s depreciable property located in the same taxing district must be at least 30% of the total cost of the property (30% floor). The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of depreciable assets.

Taxpayers who own integrated steel mill property (used to produce steel from iron ore and other materials in a blast furnace in Indiana) or oil refinery/petrochemical equipment are permitted to report that property in a fifth pool on the depreciation schedule. In addition, all of the taxpayer’s property may be valued in Pool #5 if at least 50% of the total reported property cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment.

The TTV of property reported in Pool #5 is not subject to the 30% floor. In addition, the depreciation schedule already reflects all adjustments for depreciation and obsolescence, including abnormal obsolescence. Therefore, a taxpayer electing to use Pool #5 may not claim any other obsolescence adjustment.

Qualifying taxpayers in Lake, Porter, and St. Joseph Counties have been identified as currently reporting assets in Pool #5. The St. Joseph County equipment is owned by qualifying taxpayers in Lake and Porter Counties. It has also been reported that a non-qualifying taxpayer in Spencer County is currently reporting assets in Pool #5.

This bill would restrict the use of Pool #5 to taxpayers in Lake and Porter Counties. The assets located in St. Joseph County would still qualify because of its ownership by a qualifying taxpayer. For a currently, non-qualifying taxpayer, the final assessed value on future returns might be higher or lower than the current return, but the current return may be invalid.

Any change in the final assessed value would create a shift of the property tax burden among taxpayers. If these assessments increase, then part of the tax burden would shift from all other taxpayers to the taxpayers who are changing pools. Conversely, if these assessments are reduced, then part of the tax burden would shift to other taxpayers from the taxpayers who are changing pools. In addition, the levy generated in rate-capped funds such as cumulative funds would either increase if personal property AV increases or it would decrease if personal property assessments are reduced.

(9) Assessment Rule Compliance: Under current DLGF rule:
1. An individual assessment is deemed accurate if it is a reasonable measure of true tax value as defined in the reassessment manual;
2. A technical failure to comply with the procedures of a specific assessing method does not violate the assessment rule if the individual assessment is a reasonable measure of true tax value; and
3. Failure to comply with the reassessment guidelines does not, in itself, show that the assessment is not a reasonable measure of true tax value.

Under this proposal, the section of the assessment rule cited above would be voided and an assessment would be deemed an unreasonable measure of true tax value if there is a failure to comply with statutes, rules, regulations, manuals, guidelines, bulletins, or directives adopted by the DLGF.

This bill would place a greater importance for local assessing officials to ensure that each individual assessment is made in accordance with each statute, administrative law, or advisory. Compliance at this level could result in more accurate assessments and fewer appeals. Noncompliance could result in additional appeals. The current degree of compliance at this level is unknown.

(12 A) Renter's Deduction - Because the increase in the renter's deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

(13) Levy Controls: Beginning in 2009 under this bill, budgets, rates, and levies would be reviewed and certified locally by the county council, rather than by the DLGF. The county councils would have increased expenses as a result of these additional duties. The county council or a taxing unit would be able to initiate a referendum seeking to increase a tax limit or to override the council's decision.

Under current law, maximum levy limits grow by the six-year average increase in Indiana nonfarm personal income. The current growth factor is estimated at 4.2% in CY 2009, 4.5% in 2010 and 4.3% in 2011. The growth factor is applied to the sum of the previous year's actual controlled levy plus one-half of the amount of maximum levy in the previous year that was not levied. The tax rate is dependent on the levy and assessed value. The overall budget is dependent on the levy and on other sources of revenue.

Under this proposal beginning in 2009, the total revenue growth in each county from property tax, local tax, and fees would be limited to the six-year average increase in county personal income. This factor would be specific to each county. No portion of foregone maximum levy authority from the previous year could be recaptured. The registered voters would be able to decide if taxes and fees should grow at a higher rate.

For comparison purposes, the current growth factor for controlled levies was 4.4% in 2005, 3.9% in 2006, and 4.0% in 2007. Currently, there is no combined levy / fee limitation. The average of the county factors would have been 4.3% in 2005, 3.9% in 2006, and 3.9% in 2007. The range by county for 2007 would have been 1.5% in White County to 6.9% in Hamilton County.

The limit would not apply to expenditures from cumulative funds, dedicated revenue sources, intergovernmental transfers, bond proceeds, or excessive tax levies approved by referendum.

(17) LOIT: Under current law, in addition to traditional CAGIT, COIT, and CEDIT, each county may impose three additional LOIT rates. These are the LOITs for levy replacement (up to 1%), public safety (up to 0.25%, or 0.5% in Marion County), and property tax relief (up to 1%). In 2007, 13 counties adopted one or more of these LOITs.

Under this bill, counties would no longer be permitted to initially adopt these three LOITs. Instead, counties would be permitted to impose one new LOIT (up to 1%) that could be used to (1) fund levy replacement, (2) replace revenue lost from the property tax circuit breaker credits, and (3) provide additional unspecified tax relief. A 1% LOIT in each county would generate approximately $1,271 M, statewide, in CY 2009.

(18) Property Tax Rebates: Under current law, $300 M was distributed to the counties from the Property Tax Reduction Trust Fund for additional homestead credits in CY 2007. The credits will be paid by the counties to homeowners through a refund check. Unused appropriations for the CY 2007 credit, if any, must be returned to the state trust fund and used for additional CY 2008 credits, statewide.

Under this bill, counties would have 60 days after the county receives the distribution to mail the refunds. All counties received the distributions on October 31, 2007, or November 1, 2007. The 60-day time limit required in the bill expired on January 1, 2008. This bill would also transfer unused credits to the county general fund to be used for 2008 credits in that county rather than using the surplus for statewide credits.

State Agencies Affected: DLGF; Legislative Services Agency; DOR; State Board of Accounts; State Budget Agency; Treasurer of State; DOE; Family and Social Services Administration.

Local Agencies Affected: All.

Information Sources: DLGF; Parcel-level assessment and tax data; DOR; OFMA Income Tax Databases, 1996-2005; U.S. Internal Revenue Service, Statistics of Income, Tax Stats - Individual Income Tax Return (Form 1040) Statistics, 1996-2000; Consumer Price Index, All Urban Consumers in the Midwest, Rent of Primary Residence.

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